CITY COUNCIL REPORT

DATE: 12/1/14

TO: Mayor and Councilmembers

FROM: Andy Wagemaker, Revenue Director

CC: Kevin Burke, Josh Copley, Jerene Watson, Leadership Team

SUBJECT: 3rd QUARTER 2014 INVESTMENT REPORT

This is the 3rd quarter 2014 investment report for the period ending 9/30/2014.

DISCUSSION

Every quarter, Council receives a quarterly investment report from staff. This investment report is for the 3rd quarter of 2014.

The next page of the report contains highlights of the portfolio. The highlights include internally generated information and information pulled directly from the "Investment Performance Review" provided by PFM. The Investment Performance Review provided by PFM begins on page 3.

RECOMMENDATION / CONCLUSION

This report is for information only.

INVESTMENT HIGHLIGHTS (Managed Portfolio)

(Approximate Numbers Used)

Item Description	3rd Quarter 2014	Previous Quarter	Since Inception (July 2011)
Total Managed Portfolio	\$73 million	\$65 million	N/A
City Total Return	0.00%	0.51%	0.73%
Benchmark Return	-0.05%	0.55%	0.66%
Return Spread (to Benchmark)	0.05%	-0.04%	0.07%
Portfolio Duration (in Years)	2.40	2.35	N/A
Benchmark Duration (in Years)	2.62	2.63	N/A

DEFINITIONS

Benchmark Return: A comparative basis for measuring the performance of the portfolio. The City uses the ML 1-5 Year Government Index. The index consists primarily of debt issued by the United States Government.

Return Spread: The difference between the City Total Return and the Benchmark Return. (City Total Return minus Benchmark Return)

Portfolio and Benchmark Duration: The average length of time until all securities in the portfolio mature.

COMMENTS

- All investments comply with Arizona Revised Statutes and Flagstaff's Investment Policy.
- The total City resources on hand at the end of the 3rd quarter are as follows:

Item Description	Amount	Comments						
Managed Portfolio	\$73 Million	PFM Managed Portfolio						
City Managed	\$25 Million	CDs/Checking/LGIP Pools						
Restricted Funds	\$16 Million	Landfill Closure Fund/Bond Proceeds/Other						
Total:	\$114 Million							







City of Flagstaff Quarterly Investment Report Quarter Ended September 30, 2014



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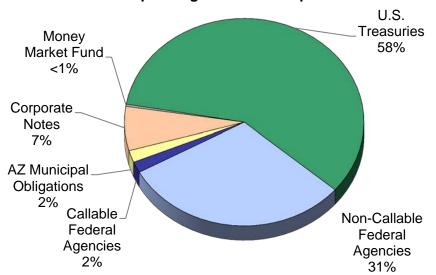
Third Quarter 2014 Strategy and Recap

- U.S. Treasury yields continued to experience periods of volatility throughout the quarter, particularly around key economic data releases, Federal Reserve meetings, and in response to swings in global equity markets.
- The Fed continued to taper its bond buying program during the quarter and announced it would end its purchases in October.
- Our duration strategy for the City's portfolio remained defensive, driven largely by our favorable assessment of U.S. economic conditions and the expectation that rates will continue to rise in response to an eventual change in Federal Reserve monetary policy.
 - We sought, and capitalized on, opportunities to modestly extend the portfolio's duration when rates moved toward the higher end of recent trading ranges.
- The yield spread between Treasuries and Federal Agencies widened for a short period in August, and we used this brief opportunity to sell Treasuries and invest the funds in Agencies to capture higher yields.
- The impact of trades during the quarter resulted in an overall increase in the portfolio's yield at cost of 0.06%.
- The yield curve remained steep by historical standards, which meant longer maturities continued to benefit from the favorable impact of "roll-down."

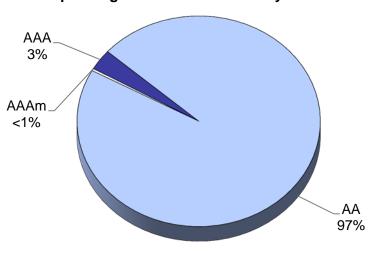
Portfolio Composition and Credit Quality Characteristics

Security Type ¹	September 30, 2014	% of Portfolio	June 30, 2014	% of Portfolio	Permitted by Policy ³
U.S. Treasuries	\$42,938,789.33	58.5%	\$34,379,070.85	52.6%	100%
Federal Agencies ²	\$23,784,543.19	32.4%	\$24,504,785.68	37.5%	100%
Non-Callable Agencies	\$22,520,949.50	30.7%	\$22,006,136.12	33.7%	100%
Callable Agencies	\$1,263,593.69	1.7%	\$2,498,649.56	3.8%	100%
AZ Municipal Obligations	\$1,376,746.50	1.9%	\$1,385,647.50	2.1%	50%
Corporate Notes	\$5,022,388.22	6.8%	\$5,032,381.94	7.7%	10%
Money Market Fund	\$255,455.30	0.3%	\$73,722.33	0.1%	25%
Totals	\$73,377,922.54	100.0%	\$65,375,608.30	100.0%	

Operating Portfolio Composition



Operating Portfolio Credit Quality Distribution



Ratings by Standard & Poor's

^{1.} End of quarter trade-date market values of portfolio holdings, including accrued interest and Cash/Money Market Fund.

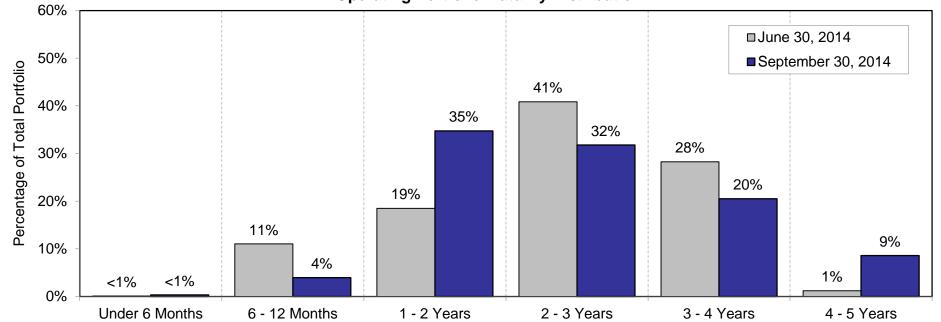
^{2.} Federal agencies including, but not limited to Fannie Mae, Freddie Mac, Federal Home Loan Bank system and Federal Farm Credit Banks.

^{3.} Percentage limitations apply to aggregate investments.

Operating Portfolio Maturity Distribution

Maturity Distribution	<u>September 30, 2014</u>	June 30, 2014
Under 6 Months	\$255,455.30	\$73,722.33
6 - 12 Months	\$2,911,647.04	\$7,218,473.43
1 - 2 Years	\$25,504,231.10	\$12,104,052.40
2 - 3 Years	\$23,332,217.65	\$26,701,982.18
3 - 4 Years	\$15,061,626.49	\$18,483,780.57
4 - 5 Years	\$6,312,744.96	\$793,597.39
Totals	\$73,377,922.54	\$65,375,608.30

Operating Portfolio Maturity Distribution ¹

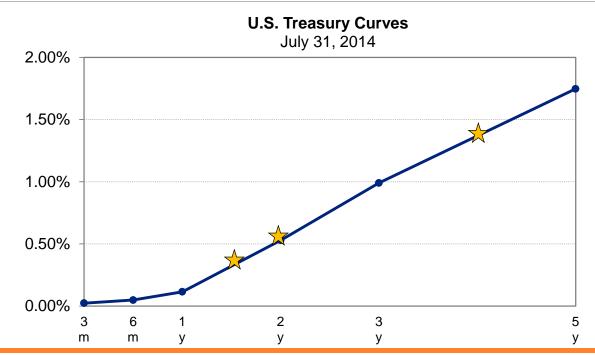


^{1.} Callable securities in portfolio are included in the maturity distribution analysis to their stated maturity date, although they may be called prior to maturity.

Investment of New Funds

- In July, the City added \$8 million of funds to the portfolio. These funds were invested in U.S. Treasuries in a variety of maturities ranging from 1.5 to 4 years and an average yield of 0.68%.
- The purchases are well-positioned on the steep yield curve and have potential to gain additional return through roll down.

Date	Transaction	Issuer	Maturity	Par Value	Yield
7/21/14	Buy	U.S. Treasury Notes	12/31/15	\$1,950,000	0.29%
7/21/14	Buy	U.S. Treasury Notes	6/30/16	\$4,000,000	0.51%
7/21/14	Buy	U.S. Treasury Notes	6/30/18	\$2,000,000	1.41%



Source: Bloomberg

Extended into Treasury Sector When Spreads Narrowed

- When spreads are narrow, we prefer to hold Treasury securities as investors are not being compensated to take on any amount of credit risk.
- The extensions took advantage of attractive rates on a steep yield curve and will benefit from appreciation as time passes.
- The Treasury purchases picked-up an average of +1.46% over those sold with a duration extension of 3.89 years.

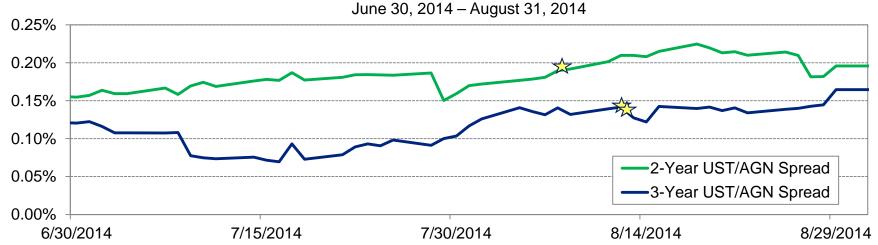
Date	Transaction	Issuer	Maturity	Par Value	Yield
7/1/14	Buy	U.S. Treasury Notes	11/30/18	\$1,750,000	1.50%
7/1/14	Sell	FHLMC Notes	11/25/14	\$1,750,000	0.10%
7/29/14	Buy	U.S. Treasury Notes	1/31/19	\$2,500,000	1.61%
7/29/14	Sell	FNMA Notes	5/27/15	\$100,000	0.17%
7/29/14	Sell	U.S. Treasury Notes	1/31/15	\$2,400,000	0.07%
9/2/14	Buy	U.S. Treasury Notes	3/31/19	\$1,300,000	1.60%
9/2/14	Sell	FHLMC Notes	9/10/15	\$1,275,000	0.20%

Traded into Agencies as Spreads Widened

- Spreads widened for a short period in August, which created opportunities to sell Treasury securities to purchase Agencies.
- The new purchases picked-up +0.07% over the sold securities and will add approximately \$6,500, without any significant extension to the portfolio's duration.

Date	Transaction	Issuer	Maturity	Par Value	Yield
8/6/14	Buy	FHLB Notes	9/28/16	\$1,950,000	0.61%
8/11/14	Buy	FHLMC Notes	6/29/17	\$1,255,000	0.96%
8/12/14	Buy	FHLMC Notes	7/28/17	\$555,000	1.00%

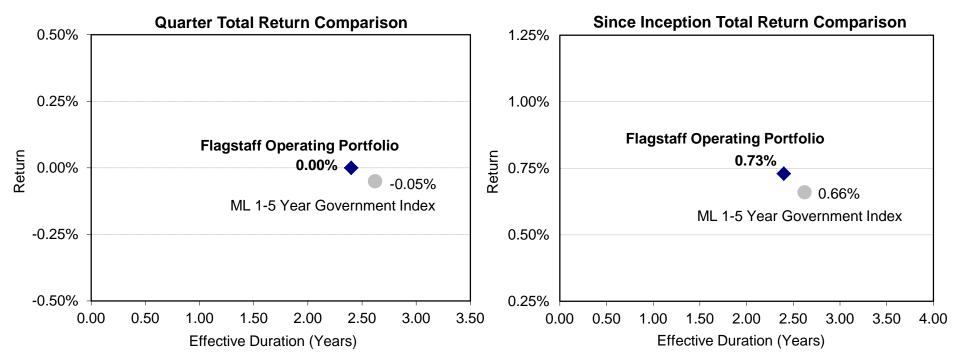
Treasury/Agency Yield Spreads



Source: Bloomberg

Portfolio Performance

Total Return ^{1,2,3,4}	Quarter Ended September 30, 2014	Past 6 Months	Past Year	Past 2 Years	Since Inception
Flagstaff Operating Portfolio	0.00%	0.50%	0.81%	0.39%	0.73%
ML 1-5 Year Government Index	-0.05%	0.50%	0.67%	0.33%	0.66%
Effective Duration	September 30, 2014	June 30, 2014	Yields	September 30, 2014	June 30, 2014
Flagstaff Operating Portfolio	2.40	2.35	Yield at Market	0.89%	0.72%
ML 1-5 Year Government Index	2.62	2.63	Yield on Cost	0.84%	0.78%



- 1. Performance on trade date basis, gross (i.e., before fees), in accordance with the CFA Institute's Global Investment Performance Standards (GIPS).
- 2. The portfolio's inception date is September 7, 2011.
- 3. Merrill Lynch Indices provided by Bloomberg Financial Markets.
- 4. Quarterly returns are presented on an unannualized basis. Performance numbers for periods greater than one year are presented on an annualized basis.

Fourth Quarter 2014 Outlook and Strategy

- Economic data is signaling a growing U.S. economy; however, weaker global growth is causing concern impacting:
 - Equity markets;
 - Timing and magnitude of expected rate hikes in 2015.
- The pace of rise in interest rates will determine the optimal investment strategy. Today's challenge is to create a balance between:
 - Conservative duration stance to mitigate unrealized market value losses;
 - Steep yield curve that offers considerably higher yields for even modest maturity extension.
- We expect yield differences/spreads to remain narrow and will favor Treasuries over Agencies, and corporates and other credit instruments over government securities.
- The SEC's recently finalized rules for Money Market Funds have not yet impacted the shortest maturity securities. However, these new rules, along with a multitude of new bank standards for capital and liquidity, are likely to influence the supply and structure of money market securities in the next year or two.
- We will continue to focus on relative value sector analysis, prudent duration management, and efficient yield curve placement to protect the portfolio and minimize the effects of market volatility.





CITY OF FLAGSTAFF OPERATING FUNDS											
Security Type/Description Dated Date/Coupon/Maturity	CUSIP	Par	S&P Rating	Moody's Rating	Trade Date	Settle Date	Original Cost	YTM at Cost	Accrued Interest	Amortized Cost	Market Value
U.S. Treasury Bond / Note											
US TREASURY NOTES DTD 12/31/2010 2.125% 12/31/2015	912828PM6	1,950,000.00	AA+	Aaa	07/21/14	07/22/14	2,001,416.02	0.29	10,471.98	1,994,538.64	1,995,626.10
US TREASURY NOTES DTD 01/31/2011 2.000% 01/31/2016	912828PS3	125,000.00	AA+	Aaa	01/24/12	01/25/12	131,665.04	0.65	421.20	127,228.73	127,861.38
US TREASURY NOTES DTD 01/31/2011 2.000% 01/31/2016	912828PS3	300,000.00	AA+	Aaa	10/19/12	10/22/12	315,046.88	0.46	1,010.87	306,145.43	306,867.30
US TREASURY NOTES DTD 01/31/2014 0.375% 01/31/2016	912828B41	1,200,000.00	AA+	Aaa	02/04/14	02/07/14	1,201,546.88	0.31	758.15	1,201,040.93	1,201,734.00
US TREASURY NOTES DTD 02/28/2014 0.250% 02/29/2016	912828B82	2,500,000.00	AA+	Aaa	03/06/14	03/06/14	2,495,214.84	0.35	535.22	2,496,585.05	2,497,950.00
US TREASURY NOTES DTD 05/02/2011 2.000% 04/30/2016	912828QF0	2,500,000.00	AA+	Aaa	03/06/14	03/06/14	2,585,058.59	0.41	20,923.91	2,562,586.40	2,562,597.50
US TREASURY NOTES DTD 06/30/2011 1.500% 06/30/2016	912828OR4	4,000,000.00	AA+	Aaa	07/21/14	07/22/14	4,076,250.00	0.51	15,163.04	4,068,698.08	4,070,780.00
US TREASURY NOTES DTD 08/31/2011 1.000% 08/31/2016	912828RF9	350,000.00	AA+	Aaa	09/16/13	09/18/13	352,324.22	0.77	299.72	351,514.23	352,843.75
US TREASURY NOTES DTD 08/31/2011 1.000% 08/31/2016	912828RF9	1,375,000.00	AA+	Aaa	08/29/13	08/30/13	1,382,519.53	0.82	1,177.49	1,379,814.92	1,386,171.88
US TREASURY NOTES DTD 08/31/2011 1.000% 08/31/2016	912828RF9	3,675,000.00	AA+	Aaa	03/06/14	03/06/14	3,717,635.74	0.53	3,147.10	3,707,910.84	3,704,859.38
US TREASURY NOTES DTD 01/31/2012 0.875% 01/31/2017	912828SC5	1,600,000.00	AA+	Aaa	02/08/12	02/09/12	1,605,062.50	0.81	2,358.70	1,602,397.84	1,603,000.00
US TREASURY NOTES DTD 01/31/2012 0.875% 01/31/2017	912828SC5	2,000,000.00	AA+	Aaa	02/22/12	02/27/12	1,999,609.38	0.88	2,948.37	1,999,814.18	2,003,750.00
US TREASURY NOTES DTD 03/31/2012 1.000% 03/31/2017	912828SM3	625,000.00	AA+	Aaa	02/27/14	03/03/14	630,078.12	0.73	17.17	629,130.75	626,904.30
US TREASURY NOTES DTD 03/31/2012 1.000% 03/31/2017	912828SM3	2,000,000.00	AA+	Aaa	03/19/14	03/21/14	2,004,609.38	0.92	54.95	2,003,812.34	2,006,093.75







CITY OF FLAGSTAFF OPERAT	ING FUNDS										
Security Type/Description Dated Date/Coupon/Maturity	CUSIP	Par	S&P Rating	Moody's Rating	Trade Date	Settle Date	Original Cost	YTM at Cost	Accrued Interest	Amortized Cost	Market Value
U.S. Treasury Bond / Note											
US TREASURY NOTES DTD 03/31/2012 1.000% 03/31/2017	912828SM3	3,500,000.00	AA+	Aaa	03/06/14	03/06/14	3,522,968.75	0.78	96.15	3,518,736.59	3,510,664.06
US TREASURY NOTES DTD 07/31/2012 0.500% 07/31/2017	912828TG5	85,000.00	AA+	Aaa	08/14/12	08/15/12	84,020.51	0.74	71.60	84,436.43	83,711.74
US TREASURY NOTES DTD 10/01/2012 0.625% 09/30/2017	912828TS9	500,000.00	AA+	Aaa	10/26/12	10/31/12	497,011.72	0.75	8.59	498,164.85	492,656.00
US TREASURY NOTES DTD 10/31/2012 0.750% 10/31/2017	912828TW0	250,000.00	AA+	Aaa	11/01/12	11/05/12	250,283.20	0.73	784.65	250,176.25	246,836.00
US TREASURY NOTES DTD 10/31/2012 0.750% 10/31/2017	912828TW0	900,000.00	AA+	Aaa	11/01/12	11/05/12	900,527.34	0.74	2,824.73	900,328.28	888,609.60
US TREASURY NOTES DTD 11/30/2012 0.625% 11/30/2017	912828UA6	1,925,000.00	AA+	Aaa	05/06/14	05/09/14	1,888,003.91	1.18	4,043.29	1,892,052.80	1,890,259.53
US TREASURY NOTES DTD 12/31/2012 0.750% 12/31/2017	912828UE8	1,000,000.00	AA+	Aaa	01/30/13	02/04/13	993,476.56	0.89	1,895.38	995,649.44	984,062.00
US TREASURY NOTES DTD 12/31/2012 0.750% 12/31/2017	912828UE8	1,100,000.00	AA+	Aaa	01/04/13	01/04/13	1,094,757.81	0.85	2,084.92	1,096,563.20	1,082,468.20
US TREASURY NOTES DTD 04/30/2013 0.625% 04/30/2018	912828UZ1	950,000.00	AA+	Aaa	05/10/13	05/15/13	941,353.52	0.81	2,484.71	943,721.37	924,988.28
US TREASURY NOTES DTD 07/01/2013 1.375% 06/30/2018	912828VK3	2,000,000.00	AA+	Aaa	07/21/14	07/22/14	1,997,500.00	1.41	6,949.73	1,997,621.42	1,994,218.00
US TREASURY NOTES DTD 12/02/2013 1.250% 11/30/2018	912828A34	800,000.00	AA+	Aaa	06/02/14	06/03/14	794,406.25	1.41	3,360.66	794,803.34	789,000.00
US TREASURY NOTES DTD 12/02/2013 1.250% 11/30/2018	912828A34	1,750,000.00	AA+	Aaa	07/01/14	07/07/14	1,731,679.69	1.50	7,351.43	1,732,632.90	1,725,937.50
US TREASURY NOTES DTD 01/31/2014 1.500% 01/31/2019	912828B33	2,500,000.00	AA+	Aaa	07/29/14	07/31/14	2,488,378.91	1.61	6,317.93	2,488,800.20	2,484,375.00
US TREASURY NOTES DTD 03/31/2014 1.625% 03/31/2019	912828C65	1,300,000.00	AA+	Aaa	09/02/14	09/04/14	1,301,421.88	1.60	58.04	1,301,404.79	1,296,344.40







Security Type/Description Dated Date/Coupon/Maturity	CUSIP	Par	S&P Rating	Moody's Rating	Trade Date	Settle Date	Original Cost	YTM at Cost	Accrued Interest	Amortized Cost	Market Value
Security Type Sub-Total		42,760,000.00)				42,983,827.17	0.82	97,619.68	42,926,310.22	42,841,169.65
Municipal Bond / Note											
MESA, AZ T/E GO BONDS DTD 04/04/2012 2.000% 07/01/2016	590485WP9	750,000.00	AA-	Aa2	03/02/12	04/04/12	781,065.00	1.00	3,750.00	762,971.88	770,707.50
AZ SCH FAC BOARD TXBL REV BONDS DTD 04/11/2013 1.118% 07/01/2017	040580GB2	600,000.00) AAA	Aaa	03/20/13	04/11/13	600,000.00	1.12	1,677.00	600,000.00	600,612.00
Security Type Sub-Total		1,350,000.00)				1,381,065.00	1.05	5,427.00	1,362,971.88	1,371,319.50
Federal Agency Bond / Note											
FANNIE MAE GLOBAL NOTES DTD 04/19/2012 0.500% 05/27/2015	3135G0KM4	2,900,000.00	AA+	Aaa	04/30/12	04/30/12	2,896,897.00	0.54	4,994.44	2,899,334.10	2,906,652.60
FHLB (EX-CALLABLE) GLOBAL NOTES DTD 12/30/2013 0.375% 12/30/2015	3130A0GK0	1,225,000.00	AA+	Aaa	12/12/13	12/30/13	1,224,632.50	0.39	1,161.20	1,224,770.51	1,226,117.20
FHLB NOTES DTD 03/16/2010 3.125% 03/11/2016	3133XXP43	1,150,000.00	AA+	Aaa	11/17/11	11/18/11	1,243,610.00	1.18	1,996.53	1,181,877.18	1,193,460.80
FREDDIE MAC GLOBAL NOTES DTD 07/08/2011 2.000% 08/25/2016	3137EACW7	450,000.00	AA+	Aaa	11/17/11	11/18/11	465,039.00	1.28	900.00	456,101.20	461,932.65
FHLB NOTES DTD 08/07/2014 0.500% 09/28/2016	3130A2T97	1,950,000.00	AA+	Aaa	08/06/14	08/07/14	1,945,612.50	0.61	81.25	1,945,916.58	1,944,288.45
FEDERAL HOME LOAN BANKS (CALLABLE) DTD 03/27/2014 1.625% 03/27/2017	3130A1CR7	1,255,000.00	AA+	Aaa	04/02/14	04/04/14	1,268,792.45	1.25	226.60	1,261,885.18	1,263,367.09
FHLMC NOTES DTD 03/26/2012 1.250% 05/12/2017	3137EADF3	2,275,000.00	AA+	Aaa	06/28/12	06/29/12	2,310,353.50	0.92	10,980.03	2,294,176.45	2,290,870.40
FREDDIE MAC GLOBAL NOTES DTD 05/14/2012 1.000% 06/29/2017	3137EADH9	260,000.00	AA+	Aaa	08/11/14	08/13/14	260,248.04	0.97	664.44	260,236.86	259,606.10
FREDDIE MAC GLOBAL NOTES DTD 05/14/2012 1.000% 06/29/2017	3137EADH9	995,000.00	AA+	Aaa	08/11/14	08/13/14	996,164.15	0.96	2,542.78	996,111.53	993,492.58
FREDDIE MAC GLOBAL NOTES DTD 06/25/2012 1.000% 07/28/2017	3137EADJ5	210,000.00	AA+	Aaa	08/12/14	08/14/14	209,973.96	1.00	367.50	209,975.15	209,136.69







CITY OF FLAGSTAFF OPERATING FUNDS										
CUSIP	Par	S&P Rating	Moody's Rating	Trade Date	Settle Date	Original Cost	YTM at Cost	Accrued Interest	Amortized Cost	Market Value
3137EADJ5	345,000.00	AA+	Aaa	08/12/14	08/14/14	344,976.89	1.00	603.75	344,977.98	343,581.71
3137EADJ5	1,050,000.00	AA+	Aaa	07/30/12	07/31/12	1,057,024.50	0.86	1,837.50	1,054,012.27	1,045,683.45
3135G0MZ3	1,800,000.00	AA+	Aaa	09/06/12	09/10/12	1,804,464.00	0.82	1,443.75	1,802,636.53	1,787,896.80
3137EADL0	1,300,000.00	AA+	Aaa	10/04/12	10/09/12	1,313,910.00	0.78	72.22	1,308,441.88	1,294,131.80
3135G0PO0	1,500,000.00	AA+	Aaa	11/27/13	12/03/13	1,488,525.00	1.08	5,651.04	1,490,925.08	1,485,768.00
3135G0RT2	1,100,000.00	AA+	Aaa	01/02/13	01/03/13	1,099,780.00	0.88	2,700.35	1,099,856.70	1,086,237.90
3137EADP1	1,400,000.00	AA+	Aaa	03/26/13	03/27/13	1,396,304.00	0.93	816.67	1,397,416.71	1,376,159.40
3135G0WJ8	1,000,000.00	AA+	Aaa	05/24/13	05/31/13	984,850.00	1.19	3,159.72	988,826.70	979,362.00
3135G0WJ8	1,625,000.00	AA+	Aaa	05/22/13	05/24/13	1,611,268.75	1.05	5,134.55	1,614,920.39	1,591,463.25
	23,790,000.00)				23,922,426.24	0.87	45,334.32	23,832,398.98	23,739,208.87
369604BE2	625,000.00	AA+	Aa3	03/06/14	03/06/14	628,937.50	0.45	2,538.19	627,532.28	627,706.25
369604BE2	1,000,000.00	AA+	Aa3	03/06/14	03/06/14	1,006,340.00	0.45	4,061.11	1,004,077.33	1,004,330.00
30231GAA0	1,735,000.00	AAA	Aaa	03/17/14	03/20/14	1,735,000.00	0.92	710.19	1,735,000.00	1,731,680.95
037833AM2	1,650,000.00	AA+	Aa1	04/29/14	05/06/14	1,649,125.50	1.07	6,978.13	1,649,241.48	1,644,383.40
	CUSIP 3137EADJ5 3137EADJ5 3135G0MZ3 3137EADL0 3135G0PO0 3135G0RT2 3137EADP1 3135G0WJ8 3135G0WJ8 369604BE2 369604BE2 30231GAA0	CUSIP Par 3137EADJ5 345,000.00 3137EADJ5 1,050,000.00 3135G0MZ3 1,800,000.00 3137EADL0 1,300,000.00 3135G0PO0 1,500,000.00 3135G0RT2 1,100,000.00 3137EADP1 1,400,000.00 3135G0WJ8 1,000,000.00 3135G0WJ8 1,625,000.00 23,790,000.00 369604BE2 625,000.00 30231GAA0 1,735,000.00	CUSIP Par S&P Rating 3137EADJ5 345,000.00 AA+ 3137EADJ5 1,050,000.00 AA+ 3135G0MZ3 1,800,000.00 AA+ 3137EADL0 1,300,000.00 AA+ 3135G0PO0 1,500,000.00 AA+ 3137EADP1 1,400,000.00 AA+ 3135G0WJ8 1,000,000.00 AA+ 3135G0WJ8 1,625,000.00 AA+ 369604BE2 625,000.00 AA+ 369604BE2 1,000,000.00 AA+ 30231GAA0 1,735,000.00 AAA	CUSIP Par S&P Rating Moody's Rating 3137EADJ5 345,000.00	CUSIP Par S&P Rating Moody's Rating Trade Date 3137EADJ5 345,000.00 AA+ Aaa 08/12/14 3137EADJ5 1,050,000.00 AA+ Aaa 07/30/12 3135G0MZ3 1,800,000.00 AA+ Aaa 09/06/12 3137EADL0 1,300,000.00 AA+ Aaa 10/04/12 3135G0PO0 1,500,000.00 AA+ Aaa 01/02/13 3137EADP1 1,400,000.00 AA+ Aaa 03/26/13 3135G0WJ8 1,000,000.00 AA+ Aaa 05/22/13 3135G0WJ8 1,625,000.00 AA+ Aaa 05/22/13 369604BE2 625,000.00 AA+ AaA Aa3 03/06/14 30231GAA0 1,735,000.00 AAA AAA Aaa 03/17/14	CUSIP Par S&P Rating Moody's Rating Trade Date Settle Date 3137EADJ5 345,000.00 AA+ Aaa 08/12/14 08/14/14 3137EADJ5 1,050,000.00 AA+ Aaa 07/30/12 07/31/12 3137EADL0 1,300,000.00 AA+ Aaa 10/04/12 10/09/12 3137EADL0 1,500,000.00 AA+ Aaa 11/27/13 12/03/13 3137EADP1 1,400,000.00 AA+ Aaa 03/26/13 03/27/13 3137EADP1 1,400,000.00 AA+ Aaa 05/24/13 05/31/13 3135G0WJ8 1,000,000.00 AA+ Aaa 05/22/13 05/31/13 3135G0WJ8 1,625,000.00 AA+ Aaa 05/22/13 05/24/13 3135G0WJ8 1,625,000.00 AA+ Aaa 05/22/13 05/24/13 369604BE2 625,000.00 AA+ Aa3 03/06/14 03/06/14 369604BE2 1,000,000.00 AA+ Aa3 03/06/14 03/06/14 <td>CUSIP Par S&P Rating Moody's Rating Trade Date Settle Date Original Cost 3137EADJ5 345,000.00 AA+ Aaa 08/12/14 08/14/14 344,976.89 3137EADJ5 1,050,000.00 AA+ Aaa 07/30/12 07/31/12 1,057,024.50 3135G0MZ3 1,800,000.00 AA+ Aaa 09/06/12 09/10/12 1,804,464.00 3137EADL0 1,300,000.00 AA+ Aaa 10/04/12 10/09/12 1,313,910.00 3135G0P00 1.500,000.00 AA+ Aaa 01/02/13 12/03/13 1,488,525.00 3137EADP1 1.400,000.00 AA+ Aaa 01/02/13 01/03/13 1.396,304.00 3135G0WJ8 1.000,000.00 AA+ Aaa 05/24/13 05/31/13 984,850.00 3135G0WJ8 1.625,000.00 AA+ Aaa 05/22/13 05/24/13 1,611,268.75 23,790,000.00 AA+ Aaa 03/06/14 03/06/14 628,937.50 369604BE2 625,000.00</td> <td>CUSIP Par S&P Moody's Rating Trade Date Settle Date Original Cost YTM at Cost 3137EADJ5 345,000.00 AA+ Aaa 08/12/14 08/14/14 344,976.89 1.00 3137EADJ5 1,050,000.00 AA+ Aaa 07/30/12 07/31/12 1,057,024.50 0.86 3135G0MZ3 1,800,000.00 AA+ Aaa 09/06/12 09/10/12 1,804,464.00 0.82 3137EADL0 1,300,000.00 AA+ Aaa 10/04/12 10/09/12 1,313,910.00 0.78 3135G0PC0 1,500,000.00 AA+ Aaa 11/27/13 12/03/13 1,488,525.00 1.08 3137EADP1 1,400,000.00 AA+ Aaa 01/02/13 01/03/13 1,396,304.00 0.93 3135G0WJ8 1,625,000.00 AA+ Aaa 05/24/13 05/31/13 984,850.00 1.19 3135G0WJ8 1,625,000.00 AA+ Aaa 05/22/13 05/24/13 1,611,268.75 1.05 369604BE2</td> <td>CUSIP Par Rating S&P Rating Moody's Rating Trade Date Settle Date Original Cost YTM at Cost Accrued Interest 3137EADJ5 345,000.00 AA+ Aaa 08/12/14 08/14/14 344,976.89 1.00 603.75 3137EADJ5 1,050,000.00 AA+ Aaa 07/30/12 07/31/12 1,057,024.50 0.86 1.837.50 3135G0MZ3 1,800,000.00 AA+ Aaa 09/06/12 09/10/12 1,804,464.00 0.82 1,443.75 3137EADL0 1,300,000.00 AA+ Aaa 10/04/12 10/09/12 1,313,910.00 0.78 72.22 3135G0P00 1,500,000.00 AA+ Aaa 11/27/13 12/03/13 1,488,525.00 1.08 5,651.04 3135G0RT2 1,100,000.00 AA+ Aaa 01/02/13 01/03/13 1,396,304.00 0.93 816.67 3135G0WJ8 1,625,000.00 AA+ Aaa 05/24/13 05/31/13 984,850.00 1.19 3,159.72 3135G0WJ8</td> <td>CUSIP Par S&P Moody's Rating Trade Date Settle Date Original Cost YTM At Cost Accrued Interest Amortized Cost 3137EADJS 345,000.00 AA+ Aaa 08/12/14 08/14/14 344,976.89 1.00 603.75 344,977.98 3137EADJS 1.050,000.00 AA+ Aaa 07/30/12 07/31/12 1.057,024.50 0.86 1.837.50 1.054,012.27 3137EADJS 1.800,000.00 AA+ Aaa 09/06/12 09/10/12 1.804,464.00 0.82 1.443.75 1.802,636.53 3137EADL0 1.300,000.00 AA+ Aaa 10/04/12 10/09/12 1.313,910.00 0.78 72.22 1.308,441.88 3135G0P00 1.500,000.00 AA+ Aaa 01/02/13 01/03/13 1.099,780.00 0.88 2.700.35 1.099,856.70 3137EADP1 1.400,000.00 AA+ Aaa 05/24/13 05/24/13 1.396,304.00 0.93 816.67 1.397,416.71 3135G0WJ8 1.000,000.00 AA+</td>	CUSIP Par S&P Rating Moody's Rating Trade Date Settle Date Original Cost 3137EADJ5 345,000.00 AA+ Aaa 08/12/14 08/14/14 344,976.89 3137EADJ5 1,050,000.00 AA+ Aaa 07/30/12 07/31/12 1,057,024.50 3135G0MZ3 1,800,000.00 AA+ Aaa 09/06/12 09/10/12 1,804,464.00 3137EADL0 1,300,000.00 AA+ Aaa 10/04/12 10/09/12 1,313,910.00 3135G0P00 1.500,000.00 AA+ Aaa 01/02/13 12/03/13 1,488,525.00 3137EADP1 1.400,000.00 AA+ Aaa 01/02/13 01/03/13 1.396,304.00 3135G0WJ8 1.000,000.00 AA+ Aaa 05/24/13 05/31/13 984,850.00 3135G0WJ8 1.625,000.00 AA+ Aaa 05/22/13 05/24/13 1,611,268.75 23,790,000.00 AA+ Aaa 03/06/14 03/06/14 628,937.50 369604BE2 625,000.00	CUSIP Par S&P Moody's Rating Trade Date Settle Date Original Cost YTM at Cost 3137EADJ5 345,000.00 AA+ Aaa 08/12/14 08/14/14 344,976.89 1.00 3137EADJ5 1,050,000.00 AA+ Aaa 07/30/12 07/31/12 1,057,024.50 0.86 3135G0MZ3 1,800,000.00 AA+ Aaa 09/06/12 09/10/12 1,804,464.00 0.82 3137EADL0 1,300,000.00 AA+ Aaa 10/04/12 10/09/12 1,313,910.00 0.78 3135G0PC0 1,500,000.00 AA+ Aaa 11/27/13 12/03/13 1,488,525.00 1.08 3137EADP1 1,400,000.00 AA+ Aaa 01/02/13 01/03/13 1,396,304.00 0.93 3135G0WJ8 1,625,000.00 AA+ Aaa 05/24/13 05/31/13 984,850.00 1.19 3135G0WJ8 1,625,000.00 AA+ Aaa 05/22/13 05/24/13 1,611,268.75 1.05 369604BE2	CUSIP Par Rating S&P Rating Moody's Rating Trade Date Settle Date Original Cost YTM at Cost Accrued Interest 3137EADJ5 345,000.00 AA+ Aaa 08/12/14 08/14/14 344,976.89 1.00 603.75 3137EADJ5 1,050,000.00 AA+ Aaa 07/30/12 07/31/12 1,057,024.50 0.86 1.837.50 3135G0MZ3 1,800,000.00 AA+ Aaa 09/06/12 09/10/12 1,804,464.00 0.82 1,443.75 3137EADL0 1,300,000.00 AA+ Aaa 10/04/12 10/09/12 1,313,910.00 0.78 72.22 3135G0P00 1,500,000.00 AA+ Aaa 11/27/13 12/03/13 1,488,525.00 1.08 5,651.04 3135G0RT2 1,100,000.00 AA+ Aaa 01/02/13 01/03/13 1,396,304.00 0.93 816.67 3135G0WJ8 1,625,000.00 AA+ Aaa 05/24/13 05/31/13 984,850.00 1.19 3,159.72 3135G0WJ8	CUSIP Par S&P Moody's Rating Trade Date Settle Date Original Cost YTM At Cost Accrued Interest Amortized Cost 3137EADJS 345,000.00 AA+ Aaa 08/12/14 08/14/14 344,976.89 1.00 603.75 344,977.98 3137EADJS 1.050,000.00 AA+ Aaa 07/30/12 07/31/12 1.057,024.50 0.86 1.837.50 1.054,012.27 3137EADJS 1.800,000.00 AA+ Aaa 09/06/12 09/10/12 1.804,464.00 0.82 1.443.75 1.802,636.53 3137EADL0 1.300,000.00 AA+ Aaa 10/04/12 10/09/12 1.313,910.00 0.78 72.22 1.308,441.88 3135G0P00 1.500,000.00 AA+ Aaa 01/02/13 01/03/13 1.099,780.00 0.88 2.700.35 1.099,856.70 3137EADP1 1.400,000.00 AA+ Aaa 05/24/13 05/24/13 1.396,304.00 0.93 816.67 1.397,416.71 3135G0WJ8 1.000,000.00 AA+





For the Month Ending **September 30, 2014**

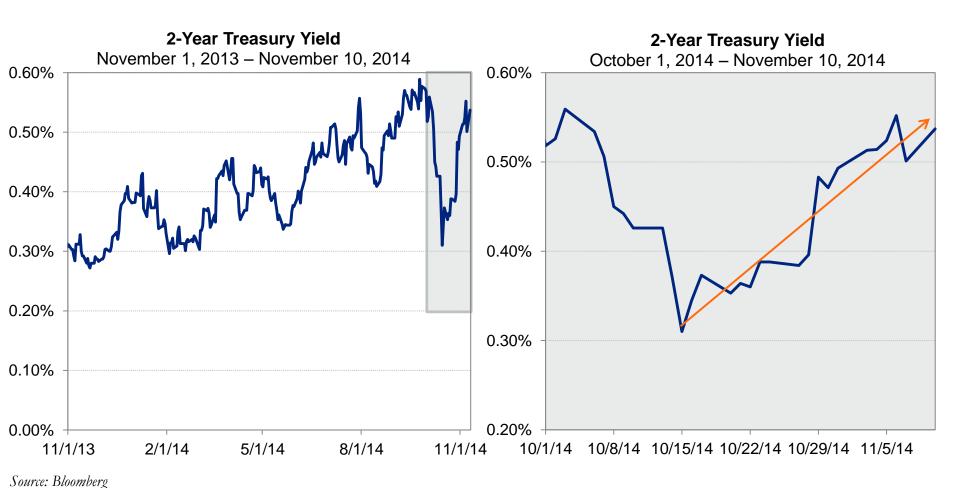
CITY OF FLAGSTAFF OPERAT	ING FUNDS										
Security Type/Description Dated Date/Coupon/Maturity	CUSIP	Par	S&P Rating	Moody's Rating	Trade Date	Settle Date	Original Cost	YTM at Cost	Accrued Interest	Amortized Cost	Market Value
Corporate Note											
Security Type Sub-Total		5,010,000.00)				5,019,403.00	0.82	14,287.62	5,015,851.09	5,008,100.60
Managed Account Sub-Total		72,910,000.00)				73,306,721.41	0.84	162,668.62	73,137,532.17	72,959,798.62
Securities Sub-Total		\$72,910,000.00	D			9	\$73,306,721.41	0.84%	\$162,668.62	\$73,137,532.17	\$72,959,798.62
Accrued Interest											\$162,668.62
Total Investments											\$73,122,467.24



Economic Update

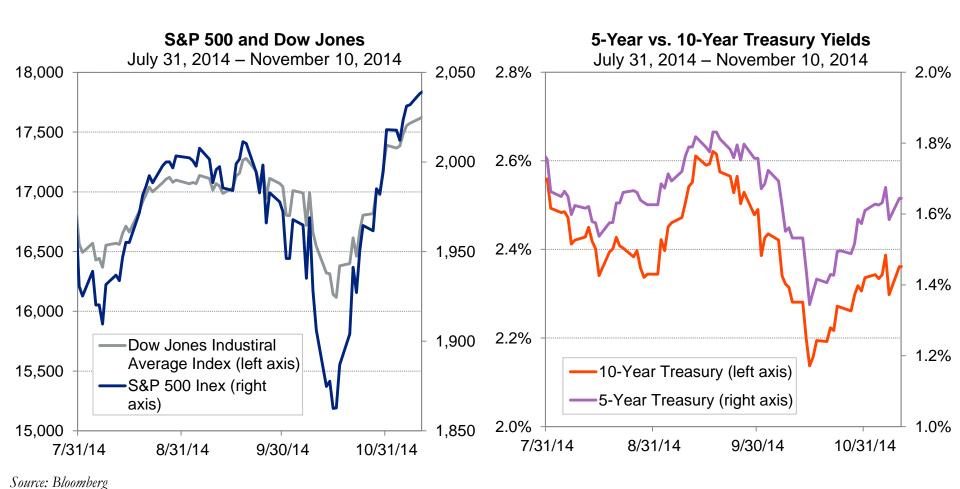
Interest Rates Plummet; Temporarily

- Interest rates have trended upward over the past year, albeit with periods of volatility around FOMC meetings, economic releases, and global events.
- In mid-October, yields experienced significant volatility, dropping to 2014 lows, but have since recovered and are back on their upward trend.



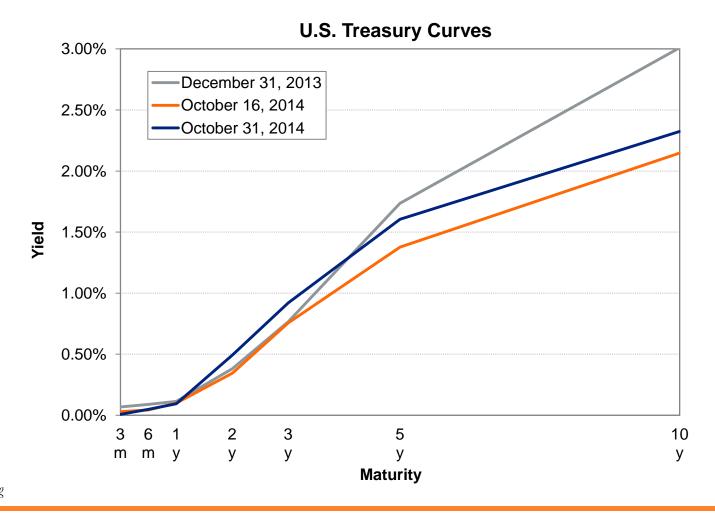
October Market Volatility

 Volatility was calmed by global central banks—the European Central Bank and Bank of Japan—who announced further stimulus measures in attempt to promote growth in their regions.



Yield Curve

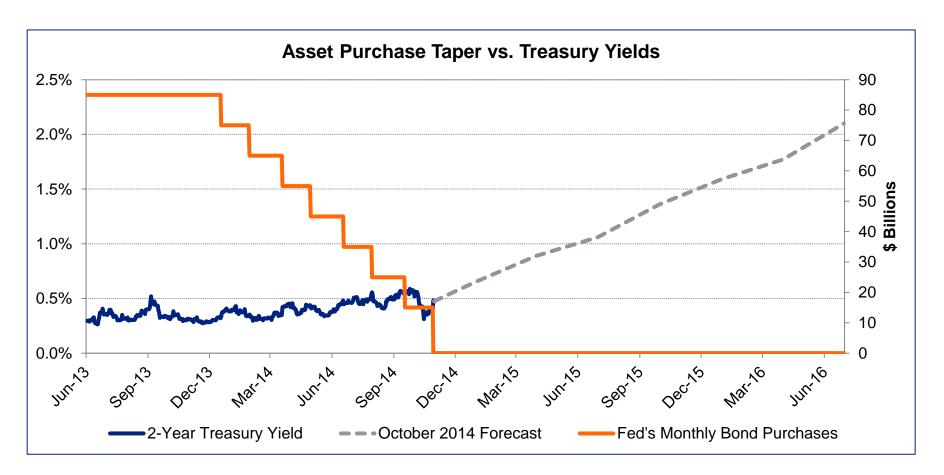
- The yield curve flattened significantly in a short time period but recovered quickly.
- Intermediate-term yields are higher than the start of the year but long-term rates are surprisingly lower.



Source: Bloomberg

Fed Tapers Bond Purchase Program

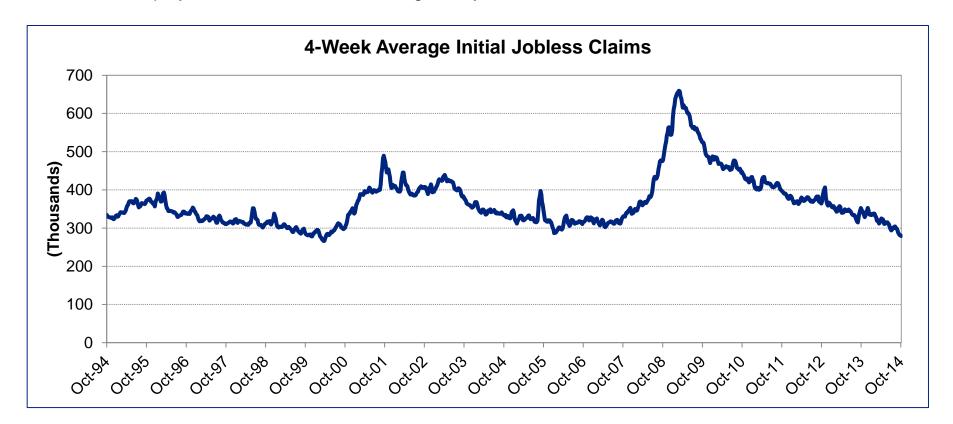
- The FOMC ended its \$85 billion/month bond purchase program in October.
- Market participants have now turned their attention to the Fed's next move—a likely increase in the Fed Fund's target rate.



Source: Bloomberg, Bloomberg Survey of Economists

Labor Market Turning a Corner

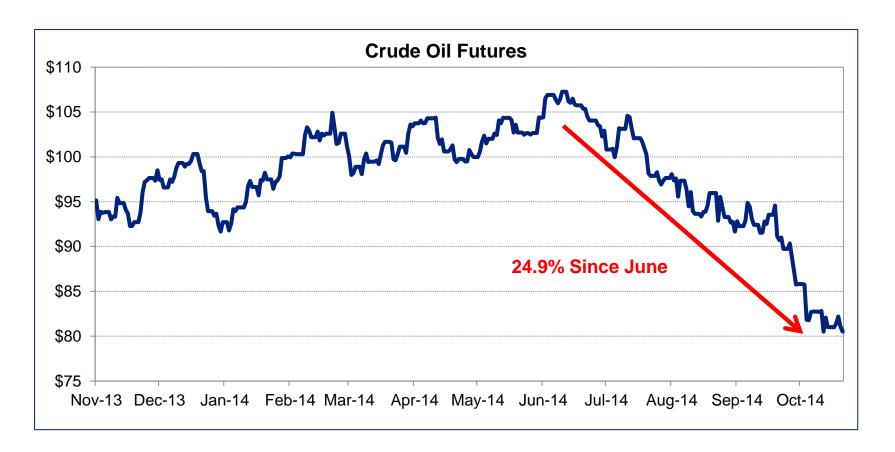
- Recent FOMC statement read that "underutilization of labor resources" is gradually diminishing.
- Further signs of a strengthening labor market:
 - Four-week moving average of initial jobless claims fell to ~300,000, near post-recession lows.
 - Economy added 214,000 net new jobs in October and prior two months were revised upward.
 - Unemployment rate fell to 5.8%, hitting a six-year low.



Source: Bloomberg. Seasonally adjusted, moving average

Oil Prices Drops—Another Double-Edged Sword

- Slowing global growth prospects, and its impact on demand for crude oil, has caused the commodity's price to tumble in recent months.
- On the bright side, lower fuel prices help support consumer spending by creating additional discretionary income.



Source: Bloomberg. NYMEX West Texas Intermediate Crude Oil Futures

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